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General Business Conditions

THE possibility of a cease-fire in Korea, which the Soviet delegate to the United Nations held out unexpectedly in his broadcast statement on June 23rd, overshadows the ordinary business news as this Letter goes to press. The first reaction was a drop in commodity and stock prices, on the theory that if the fighting ends demand will fall and inflationary pressures subside. Thereafter the markets quieted to await developments. At this writing a cease-fire is only a possibility, to be considered in conditional or hypothetical terms. A major uncertainty is whether the end of fighting in Korea would produce real peace even there. Beyond lies another question, whether the strains that are felt so widely, in relations between Russia and the western world, would be materially eased. Several thousand miles west of Korea, in Iran, another crisis with inflammatory potentialities spreads anxiety.

But with all the uncertainties, the possibility of a slowing of government and business spending is now in all minds. Business sentiment already had been somewhat unsettled by the soft spots in the situation, notably excess consumers' goods inventories and sluggish retail sales in both hard and soft goods; but to most observers these weaknesses have counted for little against the expanding defense program and the immense plant and equipment expenditures now being made and in sight. However, any real weakening in the latter areas would moderate bullish opinions substantially. The lesson of experience is that the economy will go as the capital goods and defense industries go. Interest is intensely centered in them.

Armament Expansion Will Continue

It seems certain that the country will continue to arm irrespective of Korean developments, until it is strong enough to resist and discourage any aggression. Under any likely circumstances, defense expenditures will rise much above present levels. On the other hand, the speed of armament and hence the rate of defense spending may be subject to variation. One of the major decisions of an arms program is when to freeze designs and begin mass production. If too early, the weapons become obsolete too soon. If too late, not enough will be on hand when they are needed. These decisions may be influenced by events. If the freezing of designs is deferred, plant and machinery construction will not necessarily be held up, but output of finished weapons will fall below projected levels.

On this hypothesis less industrial materials and manpower than recently expected would be taken for armament during the coming year, and more would be left for civilian requirements. The inflationary pressures would be less, because consumer demand could be better supplied. Expectations of such a change would influence business sentiment, discourage buying and encourage inventory reduction. Money would be less tight. Fiscal problems would be more readily manageable, and Congress would

CONTENTS

probably take the view that anti-inflationary measures on the whole could be less rigorous.

The foregoing is one possibility. The other is that the Korean cease-fire will not occur, or if it does that the strain in international relations will persist, much as it is now. In either event the reaction from this period of hesitation might even lead to a speedup of armament. The business outlook would continue as at present. Industrial production could be expected to remain high in overall terms, employment and money purchasing power to rise further, and inflationary pressures to gather renewed force. Increased arms output would take up the slack now evident in consumers' goods.

In any case the programs of the industries for expansion and improvement will move forward for some time, for they have gathered a momentum which will not soon slacken. The most significant statistical report of the past month is that of the Securities and Exchange Commission and the Department of Commerce, giving the results of their periodical survey of business plant and equipment expenditures. The total for the second quarter is a new all-time high of $6.4 billion, 6 per cent higher than the estimate made earlier this year. This figure is expected to be duplicated in the third quarter, and the total for the first nine months will approximate $18 billion, 40 per cent more than last year. Earlier surveys estimated the increase at 30 per cent. These immense figures, together with increasing defense output, supply assurance of support while the consumers' goods adjustments take place. They will operate to maintain business activity even if sentiment changes as is now possible.

Business and War Orders

It should be unnecessary to say that if international developments make possible a reduction in armament spending without impairing the nation's security, the abatement should be welcomed on all sides. Mr. Malik, the Soviet delegate to the United Nations, evidently does not believe this would be the view of all Americans. In the broadcast referred to he described the Soviet Government's "peace program" and said:

> If this program is not being carried out, it is only because it does not suit the forces of aggression in a number of countries which are afraid that the carrying out of such a program would undermine their aggressive measures, would make an armaments race impossible and would thus deprive them of an opportunity to obtain further billions in excess profits from war orders.

It is a strange idea that holds business responsible for armament programs, "aggression" and war. The course of history since 1914 is proof that business in any general sense does not gain by wars or armament races. On the contrary, it is thrown into disorder, its problems and difficulties are multiplied, the temporary stimulus is counterbalanced by the cost of later adjustments, and its natural function of increasing the flow of goods to consumers and raising the standard of living is frustrated.

As to the "excess profits from war orders," much that is said and believed on that subject is pure fiction. The lesson of the past fifteen years is that business, including the so-called war industries, enjoys wider profit margins in peacetime, in its normal task of producing and distributing goods and services, than it can ever expect to make in wartime or in a period of massive rearmament such as the present. During 1941 to 1945 inclusive the average profit on sales of all manufacturing corporations publishing reports was 4.3 per cent; in 1936-40 the comparable figure was 6.6 per cent, and in 1946-50 it was 7.0 per cent.

Armament requires an abnormal and impermanent shift of the country's materials, manpower and factory resources. Business must turn from its normal pursuits to fit the new requirements, and later turn back again. To whatever extent necessary, it must cease its customary work and take on new work. It must meet the costs of these shifts. It must sell its product to a single buyer under contracts subject to renegotiation. It is brought under varied government controls and allocations. The profits made despite these difficulties are subject to sharply increased normal taxes and to nearly confiscatory excess profits taxes.

Fundamentally business thrives under conditions of peace, order, good faith, and mutual service. Inflation resulting from war or armament gives an illusion of profit and prosperity during the inflationary time, but always the penalty of fiscal, monetary, political and social disorder, and disruption of production, price and trade relations, has had to be paid. The first World War and the subsequent inflation were followed by the great depression with its unemployment and ruin. From this has flowed in unbroken sequence the destruction and inflation of the second World War, and now the armament race. The dollar of 1914 is worth today only 37 cents in purchasing power over commodities at wholesale and only 39 cents as related to the cost of living, both as measured by the accepted indexes. The value of all savings has depreciated. All people whose incomes have

not increased proportionately to the depreciation have suffered.

Mr. Malik may imply that the managers of business, rather than business as an entity, are the war profiteers. But corporate executives and others in high income brackets suffer with everyone else from wars, disorder and money depreciation, and they lose purchasing power far more rapidly than most. In 1914 a man earning $80,000 to $90,000 kept, after Federal income taxes, 96 cents of his top bracket dollar. In 1948 he could keep only 26 cents, and under the bill now before Congress he may keep only 5.5 cents. Going back only to 1929, the top 5 per cent of income recipients then received 34 per cent of all individual disposable incomes, according to the studies of Prof. Simon Kuznets. In 1946 the figure was down to 18 per cent. We do not enter here into all the implications of this change, but simply point out that these are the consequences of twenty-seven years dominated by wars, armament, debt increases, and economic disturbance, which Mr. Malik now thinks the victims wish to continue.

Inflation Dangers Recognized

In the present situation the danger of further inflation, if armament expenditures increase as projected, is acute. Unless it is overcome the victims of the inflation to date will be further penalized and probably new victims created; and further disorders in price and income relationships will develop. From these the economy eventually must suffer. There is no lack of realization of these facts. Failure to deal more resolutely with inflation is not generally due to ignorance of its effects, but to the efforts of various groups to shield themselves, even at the expense of others, from evils which all recognize.

The final and crowning evil of every period of inflation is the deflation which in history has always followed. In current business reports evidence of the weaknesses which an inflationary movement creates is seen in the great rise of inventories, the expansion of investment spending to unprecedented heights, the increase of debt, and the rise of wages and prices. Except for the expansion of defense spending, most experienced judges of cyclical fluctuations of business would consider the economy vulnerable. Armament expenditures can defer reaction and support the situation while they last. But when the shift to arms production is completed and stockpiles of finished weapons accumulated, that support will decline. Then, and perhaps earlier, private capital expenditures also should logically diminish. The longer the boom, the more vulnerable the economy will become, and the greater the reaction when it arrives.

It is from this long-run view that the wrongness of the charge that business profits from war, "aggression" or armament can readily be seen. The fact is that the vast majority of business men and of everyone else dread further inflation. They dread its evils, inequities, and illusions while it lasts, and the probable reaction. Mr. Malik is mistaken. Apart from the savings of lives and cessation of suffering that real peace would bring, the country would welcome for purely economic reasons any development that will reduce even moderately the waste of arms production, abate its inflationary consequences, and add in the long run to order and stability. The proviso, in the view of American business men, is simply that our essential security must be maintained.

Box Score on Budget-Cutting

The passage by the House of Representatives last month of a tax bill calculated to raise an additional $7.2 billion of revenue from the American people makes this a good time to review the box score on Congressional efforts to cut expenditures.

It is now six months since the President presented his budget estimating $47.2 billion of expenditures for the fiscal year 1951 (later reduced to $44.3 billion) and $71.6 billion for fiscal 1952. At the time these figures were submitted they were widely criticized as excessive. Economy-minded members of both House and Senate pledged themselves to a determined drive to effect substantial savings. During the past few months the appropriations committees of both Houses have been struggling with the various spending proposals and, while the results to date are still far from complete, the people of this country have a vital interest in following the score.

For in the end it is how much we spend that determines how much we pay in taxes and hence what kind of an economic system we are going to have.

Action on Supplemental Requests for 1951

Although all appropriation bills are supposed to be passed and signed by the July 1 start of the new fiscal year, actually not a single appropriation bill for 1952 had at the end of June become law. All that has been approved since January are supplemental requests for fiscal 1951 just closed. The most important of these are the Third and Fourth Supplemental bills.

In the case of the Third bill, maximum budget requests of $896 million were cut to $365 million, a reduction of $531 million. Bulking large was a slash in funds requested for the Department of State "Voice of America" program. Although Congress approved the $9.5 million requested to meet the increased cost of completing seven new radio construction projects presently under way (for which it had previously appropriated $44.5 million), it rejected a request for $88 million to build thirteen new broadcasting facilities on grounds that the material offered in support of the request was, in the words of the House Appropriations Committee, "so devoid of specific data that it could not be considered a plan of action."

The other major cut in this bill was in the Civil Defense Administration, where likewise testimony in the hearings indicated a general lack of concrete planning and differences of opinion as to how certain objectives could be accomplished.

The Fourth Supplemental bill, as finally approved, carried $6,443 million for defense. While the final figure reflects only modest reductions as compared with the sum requested when the bill was introduced, it is more than $3.5 billion below the $10 billion contained in the President's January budget.

House Action on 1952 Appropriation Bills

Results achieved to date in cutting 1952 spending requests have been less impressive. At this writing the House has passed seven regular appropriation bills, with four more still to be acted upon, as shown by the following table. Of those already passed by the House, two have been passed by the Senate also and are awaiting conference action to iron out differences.

Status of 1952 Appropriation Bills as of June 29, 1951
(In Millions of Dollars)

Bills	Amounts Requested	House Approved	Change
Treasury—Post Office	$2,958	$2,919	— 39
Labor—Federal Security	2,732	2,641	— 91
Interior Department	559	497	— 63
Agriculture Department	820	718	— 102
Independent Offices	6,838	6,145	— 693
District of Columbia (Fed. contrib.)	12	11	— 1
Army Civil Functions (rivs., harbs.)	641	514	— 127
TOTALS ACTED ON BY HOUSE	14,560	13,444	—1,116
State—Justice—Commerce	1,302		
Legislative Branch	68		
Department of Defense	60,679		
Foreign Aid	8,500		
GRAND TOTAL	$85,111		

It will be seen that the House cut each of these bills somewhat from the amounts requested by the President, the overall reduction coming to $1,116 million. The largest House cut was $693 million in the total of the Independent Offices bill, while the next largest was $127 million in Army Civil Functions, which comprises annual flood control and river and harbor work under the Army Corps of Engineers, often referred to as "pork barrel" projects.

These cuts are without taking account of the so-called Jensen amendment (introduced by Representative Jensen of Iowa) which provides that federal departments may not fill more than one in four vacancies that occur during fiscal '52; certain emergency activities are exempted and no division or section would be reduced below 80 per cent of its July 1 strength. The virtue of this amendment is that it would bring about a gradual reduction in staff without actual dismissal of workers which is always politically difficult. Applied by the House to all of the appropriation bills already passed except Treasury-Post Office and District of Columbia, this amendment is estimated to effect further savings of $123 million.

The remaining bills to be acted upon by the House are, as shown by the table, mainly the $61 billion for national defense and $8.5 billion for foreign aid. Thus it is clear that unless the Senate action should trim much further the appropriation bills already passed by the House, substantial progress toward the goal of an overall cut of $5 billion or more in 1952 appropriations depends on cuts in these two major items.

That not even the military can be viewed as sacrosanct is indicated by evidence of waste and overbuying brought out in recent appropriation committee hearings, as well as in the earlier comprehensive studies by the Hoover Commission. Likewise the foreign economic aid program needs to be scrutinized with great care. E.C.A. was supposed to end with June 1952. The testimony of people who know the situation abroad is that while Marshall plan aid has been effective it has been extended with too generous a hand. If we are to escape from the worldwide notion that other countries should look to us for continuous assistance, E.C.A. ought to end on schedule. If some additional fringe aid is still needed it should take new form and be more closely related to the military program.

What Will the Senate Do?

Unfortunately the Senate has often restored cuts made in the House. One of the things to watch now is what the Senate is going to do.

Of the two bills that have been passed by the Senate – the Labor-Federal Security bill calling for $2,525 million and the Independent Offices bill calling for $6,222 million, the former was cut

$113 million below the House version while the latter was increased by $77 million. The Senate rejected the Jensen amendment and substituted a 10 per cent cut in payroll totals.

Senate leaders like Senators Byrd of Virginia, Douglas of Illinois, and Ferguson of Michigan have been carrying on a valiant fight for economy in small as well as large expenditures. The Senate voted to forbid government officials in twenty-seven agencies to use government chauffeurs for their government cars, and ordered a cut in the number of cars purchased. It voted to reduce sharply the number of personnel specialists relative to the number of government employes served. It reduced the annual vacation leave for some 1,900,000 federal civil employes, not including Post Office, from twenty-six working days to twenty, which, it was estimated, might save as much as $200 million annually. Senator Douglas had pointed out that under the Government's system of counting only working days off as leave (omitting Saturdays and Sundays) government employes actually got what in private industry would be better than five weeks annual leave, plus three weeks sick leave.

The trouble is that these and other economy efforts are not enough, or are offset by letting down the barriers in other directions. Experience demonstrates once more the difficulties always encountered in any attempt to roll back government expenditures.

Tax Payments by Large Corporations

The program now before Congress calling for the third stiff increase in corporate income taxes makes timely an examination of the wealth of information on the taxes already being paid by corporations, as given in their annual reports for 1950. The figures of the large companies serve as good illustrations because they are given promptly and in detail, and because the companies themselves are known to such vast numbers of customers, employes, and investors.

The accompanying table summarizes data from the annual reports of the 100 largest nonfinancial corporations in the United States, as measured by total assets at the year-end. Taxes paid or accrued in 1950 by these corporations totaled over $12 billion or almost 16 cents out of every dollar of sales.

The figures include federal, state, local, and foreign taxes of seemingly endless variety—income, excise, sales, gross receipts, old-age retirement, unemployment compensation, franchise, license, real and personal property, etc. Of the total, federal income and excess profits taxes amounted to $4.9 billion, while other federal, state, local, and foreign taxes which the corporations paid directly and charged to operations came to $4.3 billion. In addition, there were sales and excise taxes collected and remitted by some of these companies, but not included in their profit-and-loss accounts, amounting to $3.0 billion.

For the 24 largest railroad systems in the group, total tax payments last year, including the federal taxes on freight and passenger traffic, amounted to $1,180 million or 15.6 per cent of revenues. The 20 largest utility systems supplying electricity and gas paid taxes of $562 million or 18.9 per cent of revenues. The American Telephone and Telegraph System had total taxes, including those collected on phones and on calls, of $999 million or 26.6 per cent of revenues. Four of the largest retail organizations had taxes of approximately $362 million or 5.0 per cent on sales.

For the 51 largest manufacturing corporations, taxes last year totaled $9,100 million. General Motors paid $1,536 million, Standard Oil (N. J.) $571 million, Distillers Corp.-Seagrams $464 million, American Tobacco $453 million, R. J. Reynolds Tobacco $398 million, Schenley Industries $333 million, General Electric $299 million, U. S. Steel $297 million, Liggett & Myers $282 million, and Texas Company $275 million. Some of these big companies handle more tax money than most of the State treasurers.

For the manufacturing group, total taxes represented an average of 16.5 per cent on sales, but for different industries the rates varied widely. In those lines subject to heavy excise taxes the ratio of taxes to sales rose steeply, as shown in the summary by industry groups. A list of the individual companies is given on the next page.

Taxes and Sales in 1950 of the 100 Largest Nonfinancial Corporations in the U. S.

(In Millions of Dollars)

No. of Cos.	Industry Groups	Total Taxes	Sales & Revenues	% Taxes to Sales
3	Food products	$ 86	$ 4,990	1.7
8	Iron and steel	797	7,634	10.4
4	Nonferrous metals	211	1,795	11.8
3	Electrical equipment	459	3,772	12.2
3	Rubber tires, etc.	302	2,242	13.5
5	Chemical products	471	3,045	15.5
2	Autos and trucks	1,798	10,215	17.6
13	Petroleum products	2,725	15,012	18.2
3	Tobacco	1,134	2,163	52.4
2	Distilling	797	1,183	67.4
5	Other manufacturing	320	3,125	10.2
51	Total manufacturing	9,100	55,176	16.5
4	Trade — retail	362	7,281	5.0
24	Railroads	1,180	7,548	15.6
20	Electric power, gas, etc.	562	2,972	18.9
1	Amer. Tel. & Tel. System	999	3,762	26.6
100	Grand total	$12,203	$76,789	15.9

Above totals of both taxes and sales include all reported excise and sales taxes, whether shown in receipts or handled as trust funds outside the regular profit-and-loss accounts.

Business Taxes Are Passed On

Although practically everyone in the United States deals with these large companies in one way or another, few people have any idea as to the vast amounts of direct and indirect taxes which they are paying through these companies but which are largely hidden in the prices of the goods and services purchased. Most types of taxes come in time to be regarded as part of the regular costs of doing business and are passed on to the purchaser whenever possible. While the ability to do this varies greatly, of course, from company to company, and is affected by such conditions as changing demand and price controls, in the end prices generally must be adjusted to costs if business is to remain healthy and have incentive to go ahead.

The tendency over a period for increases in taxes to be passed on, with little effect on net profit margins of business as a whole, may be seen from the statistics of income covering all corporate business in years of comparable activity. In 1929, for example, when the federal income tax rate was only 11 per cent, all U. S. nonfinancial corporations paid taxes of approximately $1.1 billion and had net income equivalent to 5.4 cents per dollar of sales. In 1949, despite an increase in the federal normal tax and surtax rates to 38 per cent and a nine-fold increase in tax payments to $9.6 billion, the net income represented an average margin of 4.4 cents per sales dollar, only moderately narrower than when the tax rate was much lower.

In the case of public utility companies, whose rates charged are fixed by local regulatory authorities to yield a fair rate of return after deducting all operating expenses including income taxes, an increase in federal taxes would not only have to be passed on to the public, but would actually require twice as large an increase in the revenues before taxes required to yield the same return. This is because every dollar of increased income is itself half absorbed by the federal taxes. For example, a utility system with taxable income of $1,000,000 now pays at the 47 per cent normal and surtax rate approximately $470,000 in federal income taxes and has $530,000 left. For it to have the same amount after paying taxes at a 52 per cent rate, as now proposed, would require about $1,100,000 of taxable income. Thus, what upon the surface appears to be an increase of only 5 points, or $50,000, actually turns out to be an increase of $100,000 in payments by the public and in federal taxes collected.

Total Assets, 100 Largest Nonfinancial Corporations, As Reported at End of 1950 (In Millions)

Manufacturing	
Allied Chem. & Dye Corp.	$ 386
Aluminum Co. of Amer.	575
American Can Co.	332
American Cyanamid Co.	326
Amer. Smelt. & Ref. Co.	331
Amer. Tobacco Co.	657
Anaconda Cop. Min. Co.	699
Armco Steel Corp.	383
Armour & Co.	456
Atlantic Refining Co.	433
Bethlehem Steel Corp.	1,314
Chrysler Corp.	744
Cities Service Co.	936
Distillers Cp.-Seagrams	387
Dow Chemical Co.	327
E.I. du Pont de N. & Co.	1,472
Eastman Kodak Co.	426
Firestone Tire & Rub. Co.	366
General Electric Co.	1,277
General Motors Corp.	3,444
Goodyear Tire & Rub. Co.	487
Gulf Oil Corp.	1,344
Inland Steel Co.	356
Inter. Harvester Co.	749
Inter. Paper Co.	409
Jones & Laugh. Stl. Cp.	466
Kennecott Copper Corp.	631
Liggett & Myers Tob. Co.	442
Natl. Dairy Prod. Corp.	343
Natl. Steel Corp.	420
Phillips Petroleum Co.	667
Procter & Gamble Co.	330
Republic Steel Corp.	552
R. J. Reynolds Tob. Co.	554
Schenley Industries	403
Shell Oil Co.	723
Sinclair Oil Corp.	799
Socony-Vacuum Oil Co.	1,610
Stand. Oil Co. of Calif.	1,233
Stand. Oil Co. (Ind.)	1,640
Stand. Oil Co. (N. J.)	4,188
Sun Oil Co.	329
Swift & Co.	471
Texas Company	1,449
Union Carbide & Car Cp.	869
Union Oil Co. of Calif.	358
U. S. Rubber Co.	380
U. S. Steel Corp.	2,829
Western Electric Co.	645
Westinghouse Elec. Corp.	800
Youngstown S. & T. Co.	382

Trade	
Great A&P Tea Co.	$ 368
Montgomery Ward & Co.	678
Sears, Roebuck & Co.	1,033
F. W. Woolworth Co.	375
Transportation	
Atchison, Topeka & S. F.	1,379
Atlantic Coast Line RR	425
Baltimore & Ohio RR	1,243
Chesapeake & Ohio Rwy.	863
Chicago, Burl. & Quincy	753
Chicago, Mil. St. P.&.P.	678
Chicago & Northwestern	513
Chicago, Rock I.&P.	429
Erie Railroad Co.	442
Great Northern Railway	858
Illinois Central RR	657
Louisville & Nashville	543
Missouri Pacific RR	767
New York Central RR	1,843
New York, Chi. & St.L.	342
New York, New H.&H.	430
Norfolk & Western Rwy.	585
Northern Pacific Rwy.	868
Pennsylvania Railroad	2,345
Reading Company	398
St. Louis-San Francisco	323
Southern Pacific Co.	1,854
Southern Railway Co.	721
Union Pacific Railroad	1,247
Public Utility	
Amer. Gas & Elec. Co.	679
Amer. Tel. & Tel. Co.	8,750
Columbia Gas System	427
Com. Edison Company	927
Con. Edison Co. of N.Y.	1,329
Consumers Power Co.	390
Detroit Edison Company	468
General Pub. Util. Corp.	447
Middle South Utilities	391
New Eng. Elec. System	403
Niagara Mohawk Pr. Cp.	482
North American Co.	379
Pac. Gas & Elec. Co.	1,236
Penn. Power & Lt. Co.	323
Philadelphia Elec. Co.	561
Pub. Ser. Elec. & G. Co.	558
So. California Edison Co.	538
Southern Company	568
Tenn. Gas Trans. Co.	354
United Gas Corp.	324
West Penn Electric Co.	336

Total assets are shown after deducting reserves for depreciation. Table does not include Ford Motor Company, with total assets of $1,343 million on Dec. 31, 1949, and United Fruit Company, with total assets of $340 million on Dec. 31, 1950, which companies do not publish detailed income accounts.

As the Bell Telephone System states in its latest annual report, the taxes levied upon its operating companies, as well as the excise taxes paid by customers, are "borne by telephone users in the last analysis."

All of which illustrates the point that corporate tax increases can be in some degree self-defeating as an anti-inflationary fiscal measure. This is also true of excise taxes under the present practice of including such taxes in the U.S. official consumer price index now widely-used as a basis for automatic wage adjustments.

Taxes, Jobs and Dividends

For the 100 largest companies combined, the reported total assets, including plant and equipment, plus current assets of cash, government securities, receivables, and inventories, aggregated $85 billion at the year-end. This represented an average of over $16,600 per employe. For the major divisions of business, the average investment per job ranged from about $7,000 for

trade, and $14,000 for manufacturing, up to $22,000 for railroads and $53,000 for electric and gas utilities.

These 100 companies furnished employment last year to a total of approximately 5,100,000 men and women. Largest employers are the Bell Telephone System with 602,000, General Motors 465,000, U. S. Steel 288,000, General Electric 184,000, Bethlehem Steel 136,000, Pennsylvania Railroad 125,000, Chrysler Corporation 117,000, Sears Roebuck 117,000, Standard Oil (N. J.) 116,000, and New York Central 111,000.

Payroll figures, reported by 83 companies in the group, showed an average annual compensation of about $3,750 per employe – including in many cases the cost of pensions, hospital insurance, and other employe benefits. Based upon this average for companies representing 89 per cent of the total employment of the group, the total payroll may be estimated around $19 billion. For every $100 paid in wages and salaries, $65 was paid in taxes.

These 100 largest corporations are owned by a total of 7,200,000 registered shareholders. Such an army of "capitalists" would fill three hundred and ninety arenas each the size of Madison Square Garden in New York. While the total number of registered shareholders contains, on the one hand, duplications to the extent that some people own stock in more than one of these companies, it does not show, on the other hand, the large number of beneficial owners whose stock is registered in the name of a single bank, broker, insurance company, investment trust, or nominee.

Large blocks of these stocks are owned also by educational, religious, and other institutional investors. A survey by "The Exchange" magazine, published by the New York Stock Exchange, covering the major investments of seven large college endowment funds and three large charitable foundations, lists as the most popular the stocks of 17 companies, 15 of which are also in the list given here of the 100 largest nonfinancial corporations.

The A. T. & T. System had 990,000 shareholders at the year-end and in May welcomed its 1,000,000th – the only corporation in history to be owned by so many partners. More than 200,000, or one-third, of its own employes are shareholders also. Other companies with long shareholder lists are General Motors with 446,000, U. S. Steel 257,000, General Electric 250,000, Standard Oil (N. J.) 222,000, Cities Service 217,000, Pennsylvania Railroad 190,000, Pacific Gas & Electric 170,000, Socony-Vacuum Oil 158,000, and Consolidated Edison 150,000.

Preferred and common shareholders of the 100 largest companies received dividends of $3.1 billion last year – representing an average of about 4.1 cents per sales dollar. An equal share of net income was reinvested in the business to finance improvements and expansion of plant and equipment and to build up working capital.

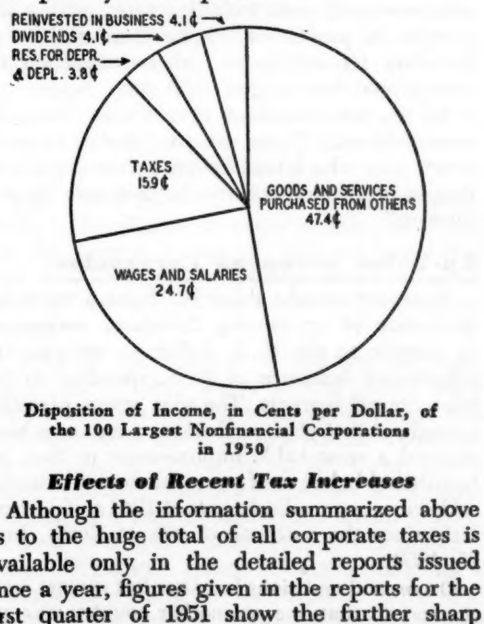
Disposition of Income of the 100 Largest Nonfinancial Corporations in the U. S. in 1950

(In Millions of Dollars)

	Total Amount	¢ per $ of Receipts
Total receipts from sales & other operations*	$76,739	100.0
Costs:		
Costs of goods and services purchased from others, etc.†	36,870	47.4
Wages and salaries paid†	19.000	24.7
Reserves for depreciation and depletion	2,906	3.8
Federal income and excess profits taxes	4,859	6.3
Other taxes*	7,344	9.6
Total costs of operations	70,479	91.8
Net income	6,260	8.2
Preferred and common dividends paid	3,149	4.1
Reinvested in the business	$3,111	4.1

*Above totals of both taxes and sales include all reported excise and sales taxes, whether shown in receipts or handled as trust funds outside the regular profit-and-loss accounts.
†Partly estimated, on basis of payrolls reported by 88 companies representing 89 per cent of the total employment of the group.

Total taxes of these companies last year were equal to $13.41 per share of common stock outstanding. Taxes were 3.9 times as large as dividends, while total direct labor costs were 6.0 times as large as dividends. Both dividends and payrolls were, of course, subject to additional taxes paid by the recipients.



Disposition of Income, in Cents per Dollar, of the 100 Largest Nonfinancial Corporations in 1950

Effects of Recent Tax Increases

Although the information summarized above as to the huge total of all corporate taxes is available only in the detailed reports issued once a year, figures given in the reports for the first quarter of 1951 show the further sharp increase in federal taxes on income. Within the past year Congress in successive steps raised

the rate of normal tax and surtax from 38 to 42, 45, and 47 per cent, and now proposes a further increase to 52 per cent. It also imposed on that portion of earnings in excess of a base amount an "excess profits tax" of 77 per cent, and now proposes to lower the base allowance and raise the tax rate to 82 per cent. The overall "ceiling" on all three taxes combined, now 62 per cent, would be lifted to 70.

Quarterly reports now issued by 84 of the 100 largest corporations show that reserves for federal income and excess profits taxes increased from an average of 6.3 cents per dollar of sales in the full year 1950 to 9.5 cents in the first quarter of 1951. Whereas such taxes took 44 per cent of net operating earnings in the year 1950, they took 58 per cent in the first quarter of '51. Moreover, these sharp increases are computed at the higher rates already in effect, but without allowance for the proposed boost of 5 percentage points retroactive to January 1.

The figures presented here suggest what a large element taxes now are in the cost of living. The political pressure is to boost corporation income taxes and to resist excise taxes on the grounds that the corporations are rich and well able to pay. This overlooks, however, the fact that all business taxes tend in the long run to be passed on. The cause is not just "orneriness" or "price gouging" on the part of business, but the requirement already noted that selling prices must cover all costs including taxes, with a fair margin for profits — otherwise there will be no incentive for enterprise and no attraction for new capital and progress will stop.

As the late President Franklin D. Roosevelt once declared: "Taxes are paid in the sweat of every man who labors because they are a burden on production and can be paid only by production."

Up-Value European Currencies?

In recent months there has been a widening discussion of up-valuing European currencies, in relation to the U. S. dollar, to mitigate the inflationary influence of U. S. spending in the international markets. The idea seems plausible enough, at first glance. European countries have enjoyed a remarkable improvement in their international balances of payment since the world-wide currency readjustments of 1949 and particularly since the outbreak of war in Korea, June 25, 1950.

On several occasions last year hot rumors went the rounds that one or another country was going to up-value its currency, Australia, Canada, Mexico, and the United Kingdom being the most frequently mentioned candidates. Actually no up-valuations were undertaken. The closest approach was the action of the Canadian Government last September, cutting loose the Canadian dollar from its previous official parity of 91 American cents. In response to free market forces of supply and demand, the Canadian dollar appreciated several cents. At the same time, the Canadian Government further eased restrictions on the use of U. S. dollars by Canadian citizens, a welcome move to Americans and Canadians alike.

The ECE Report

The more recent talk of possible currency changes was given impetus when the Economic Commission for Europe, a United Nations body which meets in Geneva, Switzerland, released its "Economic Survey of Europe in 1950". The ECE report, which came out toward the end of May, sees more world-wide inflation ahead as a result of U. S. spending abroad and urges Western European nations, by concerted action, to "appreciate" or up-value their currencies as a quick way of raising dollar prices of their export manufactures, offsetting in this way the radical increases that have occurred in prices of many essential, internationally-traded commodities. It is assumed that many overseas raw material producing countries — most notably those of the sterling area — would also up-value their currencies.

While the ECE's report takes occasion to refer to the dismal record on paper currency depreciation in Europe, and the difficulties of restoring people's faith in money, it has no use for gold as a standard of value and gives voice to the pious hope that if European monetary authorities adopt the policy of periodically changing the stated values of their currencies, "in either direction and to whatever extent seems appropriate," they may be able to insulate themselves from economic fluctuations originating outside Europe.

These proposals, contained in Chapter 5 of the 1950 Economic Survey, open a hornet's nest of problems — political, social, and economic. While they have support from some British economists, the British Government — which holds a key position — has evinced no interest. At the ECE meeting, Dutch and French officials expressed dissent; some others took the position that exchange rates — a special responsibility of the International Monetary Fund — are not the ECE's business. The U. S. Secretary of the Treasury, Mr. John W. Snyder, queried as to his views, expressed a firm disapproval:

The appreciation of currencies is not, in my view, a solution for a world-wide inflationary situation. Fundamentally, we must deal with this problem through measures such as taxation, credit controls, allocation of scarce materials and similar methods which can be applied in all countries.

Appreciation of currencies under current conditions is likely to have the effect merely of giving a temporary advantage to a particular area to the detriment of the defense effort as a whole and also to the detriment of the economic situation in the rest of the world.

Monetary Fund's Position

The position taken by the United States Government is that, rather than consider up-valuations, European and other governments should take advantage of the improvement in their currency reserves to relax or remove restrictions and discriminations, and move toward freer convertibility. Secretary Snyder took the occasion, when questioned on the ECE report, to endorse the recent report of the International Monetary Fund on "Exchange Restrictions". The Fund's report states in part:

The Fund is keenly aware of the difficulties of a new character which confront a number of its member countries, but nevertheless it believes that the very general improvement in balance of payments positions and prospects of its members justifies a relaxation or removal of restrictions and, particularly, of discrimination. Such a relaxation would have short-run benefits in increasing the quantity of goods available for domestic consumption, thus restraining inflation, and would have benefits outlasting the present emergency by permitting a more economic use of the world's resources.

The Case for Up-Valuation

The U.N. Economic Commission for Europe (ECE) draws part of its membership from the East side of the "iron curtain", and it is not to be confused with the Organization for European Economic Cooperation (OEEC) set up under the aegis of the Marshall Plan and oriented toward building power of resistance to Soviet aspirations for conquest. The ECE report has no recommendations to make along the lines of giving people more freedom to spend their money where they please. While the report puts its prime emphasis upon alleged benefits from a "drastic revision" of European currency values, it also endorses higher taxes (partly to level down larger incomes), and wage and price controls, and takes for granted continuance of exchange controls and quantitative limitations on imports and exports.

It would be grossly erroneous, the report states, to regard an upward revision of European currencies now as merely a reversal of the devaluations undertaken in the autumn of 1949:

There is a fundamental difference both in the relevant objectives of exchange rate policy at this time and in the world market situation. In 1949, the main objective was to improve the balance of payments, while the effects on prices, involving a deterioration in the terms of trade, were regarded as the necessary means to a solution of Europe's then overwhelming dollar problem. At the present time, it is the price effects which are directly important.

But, because of changes in supply elasticities, the relation between price changes and the balance of payments is probably completely reversed. Through an appreciation of currencies, Europe may now very well succeed both in forcing down import prices and in improving its balance of payments at the same time.

This would be a neat trick if it could be accomplished. What the idea boils down to is that Europe could, by concerted currency up-valuations, mark down home prices for imports, earn more dollars from exports by selling a diminished volume at higher prices, and come out with an improved balance of payments. The assumption is that—under present market conditions—Western European countries have a monopoly power in the world markets which they ought to exploit to get more from the rest of the world in return for less.

Too Many Dollars?

Here, and in other contexts as well, the ECE expects that we will spread too many dollars about the world, on trade and other accounts, and thus endanger economic stability abroad not to mention national solvency at home. This is fair warning to Americans on something that must not be allowed to happen. Our foreign aid and monetary policies must keep a weather eye on the national gold stock, and on avoiding undue and unwarranted restrictions on goods for export. We must keep a curb on inflation here, not only for our own direct benefit but to keep the dollar readily acceptable abroad in payments for goods and services.

The United States has the power and responsibility to invalidate the major premise on which the ECE report is framed—that too many dollars will be freely dispensed into the world markets and that inflation here will be uncontrolled.

With all the increase in our imports since Korea, the United States is still giving more than it receives—in the trade with Europe and with the rest of the world as a whole. The latest Department of Commerce report, which covers the first four months of 1951, shows our exports running at a rate of nearly $14 billion a year; imports at a rate a little short of $12 billion a year. "Giveaway" items, of course, make up a considerable share of the exports. Gifts and grants—over the last twenty-one months—have been more than enough to cover the "favorable" or "active" balance on goods and services ac-

count. It is gifts, plus loan transactions and capital transfers, that account for the adverse U. S. balance of payments, and the sizable buildup of foreign gold and dollar reserves, since the 1949 currency devaluations:

U. S. International Balance of Payments

(Millions of Dollars)

	1949	1950	1st Quarter 1951
Merchandise exports	$ 12,337	$ 10,658	$ 3,408
Merchandise imports	7,066	9,315	3,199
Merchandise balance	$+5,271	$+1,343	$+ 209
Net balance on services	+1,100	+ 954	+ 361
Gifts and grants*	—5,843	—4,601	—1,150
Loans, capital movements, and other items	— 588	—1,341	— 165
Balance of payments†	$— 60	$—3,645	$— 745

* Includes immigrant remittances.

† Decreases represent increases in foreign gold and dollar resources.

Source—*Survey of Current Business,* Department of Commerce.

European countries, according to the latest figures, have greatly increased their exports but still, almost uniformly, import more than they export. The OEEC reports that between 1947 — the year the Marshall Plan was proposed — and 1950, the deficit in the balance of payments of European countries participating in the Plan has been reduced from $8 billion to $1 billion. That European countries have been able to build gold and dollar reserves in the past two years, despite the continuance of a deficit trade position, is explained mainly by American grants and loans; American purchases of tin, rubber, wool, etc., in overseas dominions and dependencies of Great Britain and other European countries; and discriminations against purchases in dollar markets, especially the severe restrictions applied in the sterling area from July, 1949, to November, 1950. Apart from the improvement in the balance of payments, the volume of goods passing in international trade has increased, most notably with countries which have chosen to lower their barriers to foreign goods.

"The Terms of Trade" Argument

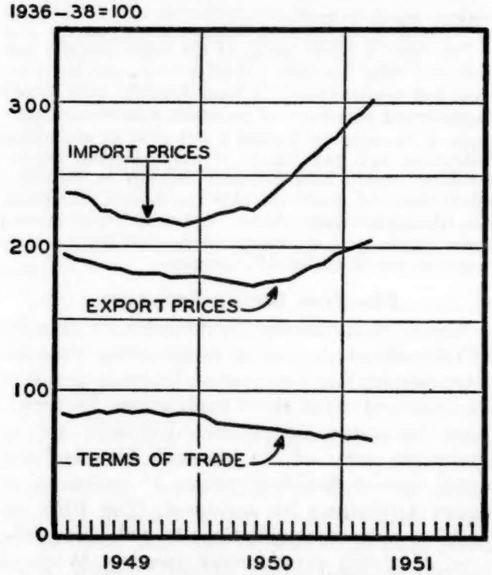
The ECE report stresses the burden imposed on Europe by the fact that import prices have risen more than export prices. In the economist's parlance this is described as a deterioration in "the terms of trade" as measured by the statistical ratio of prices realized from exports to prices paid for imports. British economists have urged up-valuation of the pound sterling as a way of raising this ratio for the benefit of the British economy.

Economic developments in Europe bear a natural and striking resemblance to those in the U. S. economy over the past twelve months. They fit the old familiar pattern of what happens when war clouds gather. There is a rush to stock up on goods and frantic bidding for available supplies of raw materials of strategic value, especially where war might cut off distant sources of supply. Such raw materials, traded in open markets, rise spectacularly in price; manufactured goods, where wage and tax levels are more important than the cost of the raw material, respond with a lag and to a smaller extent.

The novelties of the present situation are, first, that government "stockpiling" has had so much direct responsibility for the price rise in raw materials; and, second, the proposal that currency manipulation can raise prices of manufactured goods relative to those of raw materials.

U. S. Price Experience

The accompanying chart shows the behavior of U. S. export and import prices since January,



U. S. Export and Import Prices and Terms of Trade

Source: Export and import unit values computed by the U. S. Department of Commerce.

1949. The more rapid rise in import prices from June 1950 to March 1951 produced a 10 per cent decline in the "terms of trade" index. The worst actors in our import price picture have been tin, rubber, and wool, with increases of 141, 192, and 116 per cent respectively from June 1950, to their peaks six to nine months later. The biggest gainer from the rise in our demand for these commodities has been the overseas sterling area; dollars paid for them, partly converted into gold, have accumulated in British reserves.

Prices of raw materials brought into the United States from so-called dollar areas have risen less; sugar from Cuba, coffee from Brazil, petroleum from Venezuela, timber products from Canada, are important examples. Adjustments in prices of American export manufactures have been modest, when consideration is given to the inflation that has occurred in raw material prices, in wages, and in taxes levied on business and recovered out of the price charged the buyer.

Volume versus Terms of Trade

International trade would not take place unless it were advantageous to the parties concerned; thus the maintenance of volume is of a higher importance than the precise ratios between the prices involved. Of course it is better to strike as good a bargain as one's bargaining position admits. The worst outcome is when, by over-reaching greed, no bargain is struck and trade that could have been advantageous to both parties does not come off at all.

Private traders have to make good bargains to stay in business. With government it is a little different and state trading monopolies can lose money or suppress private trade as long as the people will endure the costs and deprivations involved. We have in the United States government commodity-dealing agencies with enormous powers to influence prices. The world rise in the tin and rubber markets, in the second half of 1950, was aggravated by the tactics of U. S. government buying agencies. In recent months they have curtailed buying, let prices tumble back, and permitted other buyers to come forward and take up current supplies.

The greater part of U. S. imports are raw materials and the greater part of exports are manufactures or semi-manufactures. The same, broadly, is true of most western European countries, and the majority of them have experienced an analogous deterioration in "terms of trade". The British statistics, indeed, most closely parallel our own and show a deterioration in "terms of trade" of 13 per cent from June 1950, to March 1951. This is more serious to the British economy than it is to the U. S. in the sense that foreign trade there is a larger proportion of total trade. By the same token, the maintenance of a big volume of trade, on the best terms that world market conditions permit, is an absolute essential to the British people.

The currency up-valuation proposal implies that European exporters are not on the ball and are failing to charge all that the traffic will bear. The policy of the British government has been to encourage exporters to advance their prices, but to leave the spot decision up to the exporter. On April 16, Mr. Harold Wilson, President of the British Board of Trade, stated:

> The prices charged for individual exports must be left to the manufacturers and traders and merchants who are selling the goods. They alone are in a position to know what the market will bear, especially in those areas where we are seeing the reviving competitive power of German and Japanese industry. They alone are in a position to balance short-term advantage against the long-term effects of higher prices on their established trade. But having said that, I am sure it will be agreed that the national advantage will best be served by the highest reasonable charge that we can get for our exports. The higher the price we get, the less the increase in the volume of goods we have to send abroad to pay for our imports.

One benefit that is supposed to come from up-valuing European currencies is a lowering in local prices of raw material imports. While prices in up-valued pounds or francs might be forced down, increased demands would set up a drain on gold and dollar reserves, require a tightening up on import restrictions, and stimulate trading in "black", "grey" or other irregular markets. There is not much benefit in a price drop that denies the right to buy any more than before.

There has been a softening in recent months in markets for some of the internationally traded raw materials and, although price advances on manufactured goods have encountered sales resistance, the statistical terms of trade have ameliorated a trifle for the manufacturing nations. World production of rubber, oil, and cotton, not to mention steel and aluminum and countless other materials for industry, are at or near record levels. If their prices get out of hand again it will simply be because manufacturing nations are sending too much money chasing after them.

A Step Backward

Up-valuation of currencies, accompanied by tightened restrictions on convertibility, would be a step backward in European reconstruction. In outside markets, as American travelers know, most European currencies still trade at discounts below what governments say they are worth. The recent strengthening of European currency positions is due in part to improved exports but far more to U. S. dollar gifts and grants. The responsibility of America is to hold these aids within bounds so as neither to weaken ourselves nor to instill abroad a false sense of strength and security. The responsibility of Europe — in the interests of its own peoples as well as of the world community — is to free markets, to give and to receive more of the benefits of competition, and to build value and confidence into the present currencies.

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